EOU (Economics of One Unit of Sale)

# Why? As an entrepreneur you need to take certain steps.

* + Calculate the unit of sale.
  + Determine the economics of one unit of sale.
  + Substitute someone else’s labor.
  + Try to sell in volume
  + Create jobs and operate at a profit

# EOU: entrepreneurs use profit to pay themselves, expand their business, and start other businesses.

# Unit of Sale: is one unit of the product or service a business sells, depending on the type of business.

# Types of Businesses and Unit of Sale

## Service - one hour of service time, or standard block of time devoted to a task. Ex. (lawn mowing service)

## Manufacturing – One order (any quantity)

## Retail – one unit or item (ex. one watch)

## Wholesale – a dozen of an item (ex. 12 watches)

### *Note: there can be a combination of different types of businesses that go into the formulas.*

Factors to consider:

Selling multiple units,

(Average sale per customer – average cost of sale per customer = Average gross profit per customer)

Businesses that sell a combination of differently prices items, such as a restaurant the unit of sale is more complicated. This is when an **average cost of goods sold per customer** is used to find the economics of one unit of sale.

Labor – determine the unit, selling price per unit, cost of materials, labor costs, add the costs and subtract from the selling price to get the gross profit per unit.

*(selling price – (cost of materials and labor)=gross profit per unit)*

Janet is a 10th grade student in an entrepreneurship class. She has a business making greeting cards and her unit of sale is one card. Below is additional information about the business:

* She sell ten cards per week to people in her neighborhood.
* Her selling price is $4.50 each, including an envelope.
* Her costs are $.80 per card for materials (construction paper, glue, and paint) and $.20 each for the envelope.
* On average, it takes her 15 minutes to make each card.
* Janet wants to pay herself $6 an hour. It takes her one hour to complete four cards. So the labor for each card is $1.50 ($6/4) Janet wisely realizes that she must include the cost of her labor in the economics of one unit.

Volume – Janet meets a greeting card wholesaler. He offers to buy 2,000 cards if Janet can deliver them in one month and sell them at $3.50 each.

What question should Janet be considering?

How will she determine if this deal will make her a profit and if it is physically doable?

(pg 22-23)

Try This

# What is the average unit of sale for the following businesses?

1. A restaurant that serves $600 a day in meals to 60 customers (the average cost of goods sold per unit is $5.00)?
2. A record store that sells $1000 worth of CDs per day to 40 customers (the average cost of goods sold per unit $12.50)?

# Define the following unit of sale and determine the gross profit per unit.

1. Pete, the owner of The Funky DJ, provides DJ services to parties and other social events in his neighborhood. He charges $40 per hour. He rents a double turntable for his older brother at $10 per every time he works.

1. Sue, of Sue’s Sandwich Shoppe, sells sandwiches and sodas from a sidewalk cat in popular park near her house. She sets up her cart in the summers to raise money for college. Last month she sold $1000.00 worth of product (sandwiches and sodas) to 100 customers. Her unit is one sandwich (COGS $4) plus one soda (COGS $1). Total COGS = $5.00.